United Tire & Rubber Co. Ltd.

Annual Report 1975

DIRECTORY

Officers

Robert Scolnick
Chairman of the Board and Chief Executive Officer

Charles Sherkin
President

Jim Dow
Vice President, Branch Administration

John McClure
Vice President, Sales

Earl Williams
Vice President, Manufacturing

Joseph Frieberg
Secretary

Board of Directors

Monty Bridgman

Donald Carr, Q.C.

Joseph Frieberg

Robert Scolnick

Charles Sherkin

George Watt

Donald Wilkins

Transfer Agent and Registrar

Guaranty Trust Company of Canada

Auditors

Wm. Eisenberg & Co.

Head Office

275 Belfield Road
Rexdale, Ontario

HIGHLIGHTS

	1975	1974 (Restated)
Sales	**$23,445,116**	$27,100,267
Earnings (loss) before income taxes and extraordinary income	**(2,610,602)**	2,705,975
Income taxes (recovered)	**(605,276)**	1,254,704
Earnings (loss) before extraordinary income	**(2,005,326)**	1,451,271
Per special share	**(84.1)¢**	53.8¢
Extraordinary income	**—**	374,500
Net earnings (loss)	**(2,005,326)**	1,825,771
Per special share	**(84.1)¢**	68.8¢
Cash flow from operations	**(653,628)**	3,101,914
Total assets	**18,967,427**	16,455,669
Working capital	**1,277,901**	4,116,132
Long term debt	**4,686,414**	4,218,172
Net worth	**3,426,242**	5,608,878
Working capital ratio	**1.12:1**	1.68:1
Capital expenditures	**2,468,079**	1,614,492
Depreciation	**1,240,238**	977,635

THIS IS UNITED TIRE . . . .

We design, manufacture, retread and service tires that keep the mining, forestry, construction and transportation industries moving.

That's a simple, straightforward definition of what United Tire does, and the nature of its market. We think it deserves some elaboration.

United Tire started out some 30 years ago in Toronto as a modest tire-retreading enterprise launched during the post-war surge toward recovery.

That the Company evolved into a kind of Canadian David in the midst of multinational Goliaths is a tribute to the resourcefulness of its management and, later on, to the faith of its shareholders.

Today, United Tire is the only Canadian-owned manufacturing company in the tire industry, and the Company's exports of new and retreaded tires to more than 40 countries continues to grow.

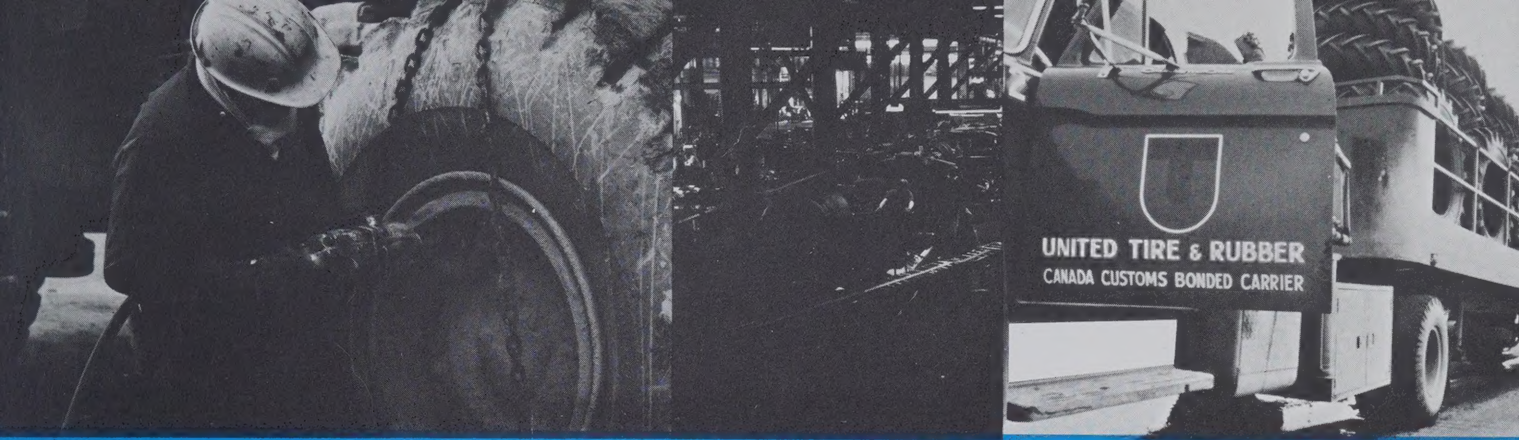
We grew to our present size because we knew what we were, corporately speaking, where we were headed, and the markets we should concentrate on.

There was some agonizing, of course, and some rethinking and restructuring along the way, but we have never strayed from our objectives: to produce demonstrably superior products that keep vehicles rolling and productive, and to offer efficient service when that becomes necessary.

The United Tire product line is a full range of new and retreaded tires for on and off-the-road vehicles, from gigantic 200-ton ore haulers to the more familiar 1/2 ton pickup trucks.

The combination of product and service is without equal in the industry, and it has been a successful and rewarding format.

The Company has expanded swiftly, particularly since 1971, with some 450 management and staff people in 18 branches from British Columbia to Newfoundland. We have warehouses or distributors in the majority of all of our export markets, and, have begun an aggressive marketing program to penetrate the United States market through established tire dealers.



1971 was the year the Company established the first Canadian-owned plant producing tires for off-the-road vehicles.

The new tire manufacturing plant in Cobourg, Ontario encompasses 210,000 square feet. Our research and development group in the plant perfects new designs, manufacturing techniques and compounds that keep extending the life of our tires.

The company continues to develop new tire sizes to keep up with new models of mining, forestry, construction and transportation vehicles and is actively engaged in the custom design and development of new tires for new equipment.

We are also the first company to incorporate Dupont's new Kevlar tire cord fabric as standard in a complete line of skidder tires for vehicles used in forestry operations. This fabric has definitely proven to be successful in improving the performance of tires used in these operations.

Our retreading facility in Toronto, the largest in Canada, can retread all tire sizes, for the smallest passenger cars and trucks to the largest off-the-road vehicles.

The retreading equipment used by United Tire nearly duplicates new tire manufacturing equipment, and is the most elaborate and sophisticated machinery of its kind in the world. This allows the Company to guarantee lowest end-cost performance.

Plans are underway to build retread facilities at our New Westminster, British Columbia branch which will eventually give us more flexibility and improved customer service.

Our on-call or on-site service in all branches across Canada is linked by computer and relies on over 65 trucks and staff able to handle the largest tires, and supported by warehouses kept well stocked by a fleet of over 40 tractors and trailers.

The international demand for the products of Canada's mines and forests and the pace of heavy construction and transportation services in Canada will continue to expand.

As it grows, United Tire will grow, and make its contribution to the progress of the country.

TO OUR SHAREHOLDERS

1975 proved to be a more difficult year than was originally anticipated by management.

New tire sales to original equipment manufacturers decreased as a result of the economic recession. The demand for off-the-road tires in the mining, heavy construction and energy-related industries did not show the strength expected at the beginning of the year.

Consolidated net sales for the year ended December 31, 1975 decreased to $23,445,116 compared to $27,100,267 in 1974. The Company suffered a consolidated net loss of $2,005,326 compared to consolidated net earnings before extraordinary income of $1,451,271 for 1974.

In order to improve working capital, the Company has obtained from the General Adjustment Assistance Board (an agency of the Government of Canada) an agreement to insure 90% of a $1,500,000 loan which is being arranged with the Company's bankers. As a condition of this loan, Inter-Provincial Diversified Holdings Limited, a principal shareholder of the Company, has agreed to invest $500,000 in a new class of preference shares of the Company, convertible into 400,000 Class A shares. In addition, Inco Limited, a major international corporation, also intends to purchase $500,000 of the same class of convertible preference shares at the same time.

The effect of this injection of a total of $2,500,000 of new debt and equity capital into the Company will be to strengthen its financial position and permit it to finance its program for future growth.

Additionally, the Company has recently negotiated a number of amendments to its trust indenture relating to its 9½% Sinking Fund Debentures which will make the loan instrument more compatible with the Company's operations.

Probably management's most important accomplishment during the year was to devise and implement a "game plan", a strategic business plan for 1975 and the foreseeable future. Considering that the tire industry is dominated by large multinational corporations, and that United Tire's financial and human resources are relatively limited, it was vitally important to allocate those resources to the areas of greatest potential in the most profitable manner.

The plan was bold and was swiftly put into operation. We made a number of important changes in management at the Cobourg plant. The improved leadership has had a direct result in improving the quality of our product, increasing productivity, and lowering production costs. We initiated a retrenchment program and closed five branches which were incurring losses. We modified our marketing strategy and increased our emphasis in the United States and other export markets based upon a comprehensive study which we made of those markets.

As a result, we believe that the Company has turned around and will begin to enjoy the benefits of the plan. The role of management now will be to concentrate on refining the Company's business operations, as it expects that no significant modifications to the overall strategy will be necessary. Current results are beginning to reflect the improvements and a stronger world economy should lend further impetus to the favourable trend.

With well-defined objectives, with an organization in which the major problems have been or are in the process of being resolved, with a strengthened financial base and with the support of our dedicated employees, we feel confident that United Tire will, in the long run, be able to develop and expand its business into a major force in the off-the-road tire industry.

Robert Scolnick
Chairman

Charles Sherkin
President

June 30, 1976

UNITED TIRE & RUBBER CO. LIMITED
and subsidiary companies

Consolidated Statement of Earnings

For the year ended December 31, 1975

	1975	1974 (Restated)
Sales	**$23,445,116**	$27,100,267
Cost of sales and expenses		
Cost of sales, operating and administrative expenses before the undernoted items:	**23,816,323**	22,737,858
Depreciation	**1,240,238**	977,635
Interest on long term debt	**485,444**	451,112
Other interest	**390,892**	227,687
Loss on disposal of fixed assets	**122,821**	—
	26,055,718	24,394,292
Earnings (loss) before income taxes and extraordinary income	**(2,610,602)**	2,705,975
Income taxes (recovered)	**(605,276)**	1,254,704
Earnings (loss) before extraordinary income	**(2,005,326)**	1,451,271
Extraordinary income	**—**	374,500
Net earnings (loss)	**($ 2,005,326)**	$ 1,825,771
Earnings (loss) per Class A and Class B special share after allocating annual cumulative dividends on first preference shares		
Before extraordinary income	**(84.1¢)**	53.8¢
After extraordinary income	**(84.1¢)**	68.8¢
Average number of Class A and Class B special shares outstanding	**2,507,150**	2,503,000

Consolidated Statement of Deficit

For the year ended December 31, 1975

	1975	1974 (Restated)
Retained earnings, beginning of year as originally reported	**$ 1,959,578**	$ 267,961
Adjustment re prior years' utility charges, net of income taxes (1975 — $40,600; 1974 — $18,695) (note 12)	**56,100**	25,800
Retained earnings, beginning of year as restated	**2,015,678**	293,761
Net earnings (loss) for year	**(2,005,326)**	1,825,771
	10,352	2,119,532
Dividends (note 6)	**177,310**	103,854
Retained earnings (deficit), end of year	**($ 166,958)**	$ 2,015,678

The accompanying notes are an integral part of the consolidated financial statements.

UNITED TIRE & RUBBER CO. LIMITED
and subsidiary companies

Consolidated Balance Sheet
As at December 31, 1975

ASSETS

	1975	1974 (Restated)
Current assets		
Term deposit	$ —	$ 50,000
Accounts receivable	4,892,007	5,170,172
Income taxes recoverable	535,396	—
Marketable securities, at cost which approximates market	34,197	32,378
Inventories (note 2)	5,885,690	4,732,387
Prepaid expenses	269,546	218,114
	11,616,836	10,203,051
Fixed assets (note 3)		
Land, buildings, equipment and leasehold improvements, at cost	11,929,464	9,807,658
Less: Accumulated depreciation	4,796,631	3,680,625
	7,132,833	6,127,033
Other assets		
Deferred interest	106,676	—
Unamortized financing costs	111,082	125,585
	217,758	125,585
	$18,967,427	$16,455,669

UNITED TIRE & RUBBER CO. LIMITED
and subsidiary companies

Consolidated Balance Sheet

As at December 31, 1975

LIABILITIES	1975	1974 (Restated)
Current liabilities		
Bank indebtedness (note 4)	$ 4,694,424	$ 821,990
Accounts payable and accrued liabilities	4,669,785	4,000,999
Note payable	134,778	—
Income taxes payable	—	574,000
Dividend payable	—	25,985
Current portion of long term debt	839,948	663,945
	10,338,935	6,086,919
Long term debt (note 5)	4,686,414	4,218,172
Deferred income taxes	515,836	541,700
SHAREHOLDERS' EQUITY		
Capital stock (note 6)		
First preference shares, Series A	1,482,376	1,484,925
Class A special shares	1,219,445	—
Class B special shares	891,379	—
Common shares	—	2,108,275
	3,593,200	3,593,200
Retained earnings (deficit)	(166,958)	2,015,678
	3,426,242	5,608,878
	$18,967,427	$16,455,669

The accompanying notes are an integral part of the consolidated financial statements.

On Behalf of the Board

Robert Scolnick, *Director*

Charles Sherkin, *Director*

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1975

	1975	1974 (Restated)
Source of funds		
Operations		
Earnings (loss) for year before extraordinary income	**($ 2,005,326)**	$ 1,451,271
Charges not requiring an outlay of funds:		
Depreciation	**1,240,238**	977,635
Amortization of financing costs	**14,503**	14,503
Loss on disposal of fixed assets	**122,821**	—
Deferred income taxes	**(25,864)**	658,505
Funds from operations	**(653,628)**	3,101,914
Other		
Proceeds from disposal of fixed assets	**99,220**	—
Increase in long term debt	**468,242**	—
	(86,166)	3,101,914
Use of funds		
Purchase of fixed assets	**2,468,079**	1,614,492
Increase in deferred interest	**106,676**	—
Decrease in long term debt	**—**	103,743
Dividends (note 6)	**177,310**	103,854
	2,752,065	1,822,089
Increase (decrease) in working capital	**($ 2,838,231)**	$ 1,279,825
Working capital, end of year	**$ 1,277,901**	$ 4,116,132
Working capital, beginning of year as originally reported	**4,019,432**	2,791,812
Adjustment re prior years' utility charges (note 12)	**96,700**	44,495
Working capital, beginning of year as restated	**4,116,132**	2,836,307
Increase (decrease) in working capital	**($ 2,838,231)**	$ 1,279,825

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 1975

1. SUMMARY OF ACCOUNTING POLICIES

a) Principles of Consolidation
The consolidated financial statements include the accounts of United Tire & Rubber Co. Limited and all its subsidiary companies.

b) Inventories
Inventories are valued at the lower of cost and net realizable value with cost being determined using the first in, first out method.

c) Fixed Assets and Depreciation
Fixed assets are valued at cost and are depreciated on the straight-line basis at rates sufficient to amortize the cost of the assets over their estimated useful life as follows:

Buildings	5%
Equipment	10%–20%
Leasehold improvements	Term of lease

d) Financing Costs
These costs are amortized over the term of the financing. Amortization for the current year amounted to $14,503 (1974—$14,503).

e) Income Taxes
Income taxes are accounted for using the tax allocation method whereby the provision for income taxes relates to the accounting income for the year. Accumulated tax reductions applicable to future years resulting from claiming capital cost allowances and other deductions for tax purposes in excess of depreciation and other charges recorded in the accounts are shown on the balance sheet as "Deferred income taxes".

f) Research and Development
Expenses associated with research and development are written off in the year in which they are incurred.

g) Pension Plan
During the year the Company's wholly-owned subsidiary, United Tire & Rubber Mfg. (Toronto) Limited, introduced a pension plan. Pension costs charged against earnings include amounts paid in respect of current and past services, with past service costs being funded over fifteen years ending in 1989.

h) Earnings Per Share
Earnings per share are calculated using the weighted average number of shares outstanding during the year.

2. INVENTORIES

	1975	1974
Finished goods	$4,609,556	$2,995,670
Work-in-process	337,814	94,405
Raw materials	938,320	1,642,312
	$5,885,690	$4,732,387

3. FIXED ASSETS

	1975	1974
Land	$ 71,887	$ 53,288
Buildings	253,848	141,218
Equipment	10,760,962	8,862,041
Leasehold improvements	842,767	751,111
	11,929,464	9,807,658
Less: Accumulated depreciation	4,796,631	3,680,625
	$ 7,132,833	$6,127,033

4. BANK INDEBTEDNESS

Bank indebtedness includes a bank loan of $4,025,000 payable on demand, secured by a general assignment of book debts and by a $5,000,000 demand debenture providing a first floating charge over accounts receivable and inventories, and a floating charge over all other assets, the latter ranking behind the 9½% Sinking Fund Debentures and the 9% Debenture issued to the Ontario Development Corporation.

5. LONG TERM DEBT

	1975	1974
9½% Sinking Fund Debentures	$ 2,850,000	$3,000,000
9% Debenture	191,170	225,069
Forgiveable loan	90,000	100,000
9% Series A Debentures	560,000	680,000
Chattel mortgages and finance contracts	1,712,692	630,191
Other long term debt	122,500	246,857
	5,526,362	4,882,117
Less: Current portion	839,948	663,945
	$ 4,686,414	$4,218,172

9½% Sinking Fund Debentures (Refer to note 13 for events subsequent to December 31, 1975.)

The Company has outstanding $2,850,000 of 9½% Sinking Fund Debentures due August 31, 1983, insured to the extent of 90% by the General Adjustment Assistance Board.

These debentures are secured by a fixed charge on all land, buildings and equipment of the Company and by a first floating charge on all other assets of the Company subject to the security held by the bank (note 4). The Company has covenanted to establish a sinking fund providing for annual payments as follows:

August 31, 1976	—	$200,000
August 31, 1977	—	250,000
August 31, 1978	—	300,000
August 31, 1979	—	350,000
August 31, 1980	—	350,000
August 31, 1981	—	350,000
August 31, 1982	—	350,000
August 31, 1983	—	700,000

The debentures contain the following covenants:

i) a prohibition against the payment of any dividend in any year if, after giving effect to such payment, shareholders' equity would be less than $3,500,000 or working capital would be less than $3,750,000 or working capital ratio would be less than 1.3:1;

ii) a requirement for the maintenance by the Company of not less than $1,750,000 in working capital;

iii) a restriction on incurring chattel mortgages and finance contracts in excess of $621,000;

iv) a limitation on capital expenditures to a maximum of $833,000 for 1975;

v) special restrictions on dividend payments on Class A and Class B special shares, directors' fees, management salaries and lease commitments.

The debentures are accompanied by share purchase warrants entitling the bearers to purchase Class A special shares of the Company on the basis of 50 Class A special shares for each $1,000 principal amount of debentures at the undernoted prices for each Class A special share:

Up to August 31, 1976	–	$2.75
From September 1, 1976 to August 31, 1979	–	$3.75
From September 1, 1979 to August 31, 1983	–	$5.75

9% Debenture

The Company's wholly-owned subsidiary, United Tire & Rubber Mfg. (Toronto) Limited, has issued to the Ontario Development Corporation a debenture secured by a fixed mortgage on all tools, machinery, equipment and chattels, as well as a floating charge on all of the subsidiary's undertaking, property and assets. This debenture matures February 15, 1980, and is repayable $4,370 monthly, including principal and interest at the rate of 9% per annum.

The Company has issued to the Ontario Development Corporation as collateral security for this indebtedness and for the forgiveable loan noted hereunder a $400,000 9% Debenture secured by a fixed charge on specific equipment owned by the Company.

The Ontario Development Corporation has postponed its rights under both debentures in favour of the 9½% Sinking Fund Debenture holders.

Forgiveable Loan

The Ontario Development Corporation has loaned $90,000 to the subsidiary secured under the above debentures. This loan is interest free and forgiveable as to $10,000 during each of the next four years and the remainder during the fifth year provided that the subsidiary, at all times prior to each of the dates upon which payment is to be forgiven, has operated its business in a manner satisfactory to the lender. Subsequent to the year end $10,000 was forgiven with respect to this loan.

9% Series A Debentures

These debentures are secured by a floating charge on the undertaking, property and assets of the Company and have been postponed and subordinated in favour of the charges created by the debentures referred to previously. The Company has outstanding $560,000 of 9% Series A Debentures repayable as follows:

Principal Amount	Expiry Date	Annual Repayment
$175,000	June 1, 1979	$ 50,000
385,000	June 1, 1981	70,000
$560,000		$120,000

Chattel Mortgages and Finance Contracts

These obligations are secured by plant machinery and equipment, bear interest at an average rate of approximately 12% per annum, and are repayable as follows:

1976	–	$ 444,509
1977	–	382,454
1978	–	369,299
1979	–	279,795
1980	–	152,634
After 1980	–	84,001
		$1,712,692

Other Long Term Debt

This consists of an unsecured note in the amount of $122,500 bearing interest at the rate of 8% per annum and repayable $17,500 semi-annually until maturity, May 1979.

6. CAPITAL STOCK AND DIVIDENDS

a) Authorized Share Capital

1,992,167	First preference shares, par value $2.25 each, issuable in series of which 892,167 shares have been designated Series A
2,948,000	Class A special shares, without par value, voting, convertible on a one-for-one basis into Class B special shares, ranking equally in all aspects with the common shares and Class B special shares
1,059,833	Class B special shares, without par value, voting, convertible on a one-for-one basis into Class A special shares, ranking equally in all aspects with the common shares and Class A special shares, with dividends being paid out of tax-paid undistributed surplus
40,000	Common shares, without par value

b) Issued Share Capital

		1975	1974
658,833	First preference shares, 7% cumulative, Series A, convertible on a one-for-one basis into Class A special shares (1974 – 659,966)	$ 1,482,376	$1,484,925
1,448,000	Class A special shares (1974 – Nil)	1,219,445	–
1,059,833	Class B special shares (1974 – Nil)	891,379	–
–	Common shares (1974 – 2,506,700)	–	2,108,275
		$ 3,593,200	$3,593,200

c) Share Reclassification

On June 25, 1975, the Company obtained Articles of Amendment changing its share capital as follows:

i) Reclassifying all of the 4,006,900 authorized common shares, without par value, into 4,006,900 Class A special shares, without par value.

ii) Increasing the authorized capital of the Company by creating 40,000 common shares, without par value.

d) Share Issues and Conversions

i) During the year the Company issued 1,133 Class A special shares on the conversion of the same number of first preference shares.

ii) During the year 1,059,833 Class A special shares were converted into Class B special shares.

e) Options

The Company has reserved 125,000 Class A special shares for issue under its Employee Stock Option Plan. As at December 31, 1975, options for 94,900 Class A special shares were outstanding as follows:

Number of Shares	Option Price	Expiry Date
33,500	$2.25	1983
3,500	$2.30	1984
10,000	$2.25	1985
47,900	$1.25	1985

f) Warrants

The Company has reserved 150,000 Class A special shares for the exercise of warrants outstanding under the terms of the 9½% Sinking Fund Debentures.

g) Dividends

Dividends on Class B special shares paid out of 1971 tax-paid undistributed surplus are 15% less than the corresponding dividends on the Class A special shares with the difference being paid as a tax by the Company. The dividends received by the Class B shareholders resident in Canada reduce the adjusted cost base of their shares for capital gains tax purposes.

Dividends paid during the year together with the related tax as described above are as follows:

	1975	1974
First preference shares — 7.875¢ per share (1974 — 15.75¢ per share)	$ 51,964	$103,854
Class A special shares — 5¢ per share	72,360	—
Class B special shares — 5¢ per share (including tax of $7,945 paid on 1971 undistributed surplus)	52,986	—
	$177,310	$103,854

Cumulative dividends of 7.875¢ per first preference share ($51,883 in aggregate) were in arrears as at December 31, 1975.

The Company did not declare the quarterly dividend of $25,941 on the outstanding first preference shares for the quarter ended April 1, 1976. If eight quarterly dividends on these shares are in arrears the first preference shareholders are entitled to vote and to elect one member of the board until all arrears of dividends on all first preference shares have been paid.

7. LEASES

The aggregate minimum rentals payable (exclusive of taxes, insurance and other occupancy charges) under long term leases in effect December 31, 1975 for head office, branch and plant locations for each of the periods shown below are as follows:

1976	—	$ 430,000
1977 to 1981	—	1,843,000
1982 to 1986	—	703,000
1987 to 1991	—	460,000

Annual rental obligations under lease contracts for vehicles and equipment amount to $86,000.

8. COMMITMENTS

The Company has purchased or made commitments to purchase fixed assets for delivery in 1976 amounting to $850,000.

9. PENSION PLAN

The total unfunded past service liability as at December 31, 1975 as determined by independent actuaries was $78,000.

10. INCOME TAXES

The Company has a loss carry forward of $1,500,000 available to reduce its taxable income for accounting purposes in future years up to December 31, 1980.

11. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration paid during the year by the Company to directors and senior officers of the Company as defined by the Ontario Business Corporations Act was $374,872 (1974 — $440,744).

12. COMPARATIVE FIGURES

The figures for the previous year have been restated to give effect to a reduction in prior years' utility charges of $56,100 net of income taxes of $40,600 and have been reclassified, where necessary, to conform with the current year's presentation.

13. SUBSEQUENT EVENTS

a) 9½% Sinking Fund Debentures

The Company is in default under certain of the covenants to which the 9½% Sinking Fund Debenture holders are entitled, including covenants restricting capital expenditures and dividends, requiring maintenance of working capital and limiting funded debt. On September 19, 1975 the Trustee for the holders of these debentures notified the Company of the defaults but the notice was withdrawn on September 30, 1975 without prejudice to the Trustee's rights to provide further notification and thereby to require payment of the debt.

The Company is engaged in discussions with the Trustee and with the General Adjustment Assistance Board, which is the insurer of the debentures to the extent of 90%. Agreement has

been reached among the Company, the Trustee and the Board for the waiver of rights arising under the existing defaults and for the amendment of the relevant covenants as described below. As a condition of the waiver and amendment, the interest rate on the debentures is to be increased to 10½% per annum effective March 1, 1976 and the per share price at which holders of share purchase warrants are entitled to purchase Class A special shares is to be adjusted as follows:

Up to August 31, 1976	$2.75
From September 1, 1976 to August 31, 1979 —	$2.50
From September 1, 1979 to August 31, 1983 —	$3.50

If the transactions described under "Additional Financing" below are not completed on or before November 30, 1976, notice of default could be given.

The changes in the covenants relating to the 9½% Sinking Fund Debentures that have been agreed upon by the Company, the Trustee and the Board include deleting the covenants summarized under "9½% Sinking Fund Debentures" in note 5 and substituting:

i) a prohibition against the payment of any dividends in any year if, after giving effect to such payment, shareholders' equity would be less than $3,500,000 or working capital would be less than $3,000,000;

ii) a requirement for the maintenance by the Company of not less than $3,000,000 in working capital effective December 31, 1976;

iii) a restriction on incurring additional funded debt if, after it is incurred, the ratio of long term debt to equity would exceed 1.5:1;

iv) a limitation on capital expenditures of the Company to a maximum of $1,000,000 during 1976 and each year thereafter.

Amendments to other covenants have also been agreed upon, including specific restrictions on dividend payments on Class A and Class B special shares, directors' fees, management salaries and lease commitments.

b) Additional Financing

The General Adjustment Assistance Board has agreed, subject to compliance with specified conditions, to insure to the extent of 90% a loan to the Company from a private lender in the amount of $1,500,000 having a repayment schedule not longer than five years nor shorter than three years with provision for prepayment and accelerated repayment. The loan would be secured by a specific charge on all fixed assets of the Company, ranking after the outstanding chattel mortgages and finance contracts, after the 9½% Sinking Fund Debentures and after the 9% Debenture held by the Ontario Development Corporation. In addition, the new loan would be secured by a floating charge on all other assets of the Company which would be subject to prior charge security held by the Company's bankers, by the Trustee for the 9½% Sinking Fund Debenture holders, and by the Ontario Development Corporation.

The conditions to the commitment of the Board include a requirement that the Company obtain new equity financing in the amount of $500,000, together with guarantees satisfactory to the Board of the availability of up to an additional $500,000 if required on or after December 31, 1976 to maintain working capital at not less than $3,000,000. The Company has received a letter of intent from a principal shareholder indicating that the shareholder is prepared to subscribe for convertible preference shares of the Company with an aggregate par value of $500,000 and that it is also prepared to commit to invest up to a further $500,000 unless a satisfactory commitment to the same effect is obtained from a financial institution satisfactory to the Board. It is anticipated that the arrangements described under "Proposed Further Share Issue" below may satisfy the requirements for such a commitment.

The Company is engaged in negotiations with its bankers and with the Board and anticipates that the additional financing will be available to it substantially on the terms contemplated by the Board's commitment and will be insured as to 90% by the Board.

c) Proposed Further Share Issue

The Company has received a letter from a major corporation which is not now a shareholder of the Company, indicating an intention to subscribe for convertible preference shares of the Company having an aggregate par value of $500,000 which, if converted, would represent approximately 10% of the total number of Class A and Class B special shares of the Company to be outstanding on a fully diluted basis. The offer contemplates prior completion of the transactions described under "Additional Financing" above. The Company anticipates that, subject to completion of detailed arrangements, it will be prepared to accept this subscription.

Auditors' Report

To the Shareholders of
United Tire & Rubber Co. Limited

We have examined the consolidated balance sheet of United Tire & Rubber Co. Limited and subsidiary companies as at December 31, 1975, and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
April 28, 1976
(July 5, 1976 as to Note 13)

Wm. Eisenberg & Co.
Chartered Accountants

SIX YEAR FINANCIAL REVIEW

Operating Results	1975	Years Ended December 31 1974 (restated)	1973	1972	Eleven Months Ended December 31 1971	Year Ended January 31 1971
Sales	**$23,445,116**	$27,100,267	$18,545,532	$16,382,295	$15,949,150	$14,951,096
Depreciation	**1,240,238**	977,635	837,125	618,877	301,659	193,349
Interest	**876,336**	678,799	623,197	405,247	298,043	253,081
Income Taxes	**(605,276)**	1,254,704	77,936	(94,339)	381,002	264,608
Earnings (loss) before Extraordinary Income	**(2,005,326)**	1,451,271	100,691	(422,137)	432,271	263,499
Extraordinary Income	**—**	374,500	186,438	(806,842)	—	—
Net Earnings (loss)	**(2,005,326)**	1,825,771	287,129	(1,228,979)	432,271	263,499
Capital Expenditures	**2,468,079**	1,614,492	1,082,011	3,328,915	1,756,879	299,598
Cash Flow from Operations	**(653,628)**	3,101,914	960,253	161,240	788,230	768,376

Performance Measurements	1975	1974	1973	1972	1971 (11 months)	1971
Operating Return on Sales	**(8.6)%**	5.4%	0.5%	(2.6)%	2.7%	1.8%
Return on Total Assets	**(12.1)%**	10.5%	0.8%	(4.5)%	5.4%	5.1%
Return on Total Equity	**(35.8)%**	37.6%	4.7%	(31.3)%	34.0%	16.8%
*Return on Special Share Equity	**(48.6)%**	61.4%	4.8%	N/A	N/A	N/A
Working Capital Ratio	**1.12**	1.68	1.51	0.91	1.14	1.19
Quick Asset Ratio	**0.47**	0.86	0.67	0.40	0.56	0.56
Working Capital / Assets	**0.07**	0.25	0.20	(0.06)	0.08	0.13
Debt/Equity Ratio	**1.37**	0.75	1.12	1.01	1.64	0.73
Interest Coverage on Long Term Debt	**(4.4X)**	7.0X	1.5X	(0.9X)	5.5X	N/A

Financial Position	1975	1974	1973	1972	1971 (11 months)	1971
Working Capital	**$ 1,277,901**	$ 4,116,132	$ 2,791,812	$ (688,281)	$ 793,331	$ 1,040,489
Accounts Receivable	**4,892,007**	5,170,172	3,490,177	2,748,331	3,062,339	3,038,673
Inventories	**5,885,690**	4,732,387	4,370,155	3,524,219	3,044,648	3,023,496
Fixed Assets (Gross)	**11,929,464**	9,807,658	8,193,080	7,111,069	3,782,944	2,029,065
Total Assets	**18,967,427**	16,455,669	13,871,390	12,022,557	9,324,272	7,907,990
Long Term Debt	**4,686,414**	4,218,172	4,321,915	2,183,097	2,209,459	927,776
Shareholders Equity	**3,426,242**	5,608,878	3,861,161	2,152,412	1,350,820	1,263,903
*Equity/Special Share ($)	**0.78**	1.64	0.94	0.86	N/A	N/A

*In June, 1975 the common shares of the Company were reclassified into special shares.